



# Cotton Market Weekly

**JULY 23, 2021**

## **DECEMBER FUTURES EXTREMELY VOLATILE THIS WEEK**

- December Futures Hit Life-of-Contract High at 90.59 cents
- Treasury Notes Continue to Weaken
- Next Marketing Year Sales Pick Up Steam
- 60% of U.S. Crop Now “Good” or “Excellent”

December futures had an extremely volatile week. Prices dove to 86.35 cents per pound on Monday, giving back more than the prior week’s gain in a heavy-volume selloff. Despite the crash, buyers quickly re-entered the market to take advantage of the spike lower. By Thursday morning, December futures were trading at a fresh, life-of-contract high at 90.59 cents. Prices pulled off the high mid-day, settling at 89.86, up 81 points for the week. Open interest fell dramatically in Monday’s selloff, but recouped the losses by the end of the week. The total number of

open contracts in the market climbed 3,499 contracts to 237,462, which is the highest level since the first week of March.

## **OUTSIDE MARKETS**

Outside markets seem to explain the majority of cotton's move lower on Monday. Mounting concerns about the spread of the Delta variant, both in countries with low vaccination rates and in parts of the U.S., seem to be feeding investor anxiety about whether the economic recovery will match expectations. The commodity sector had extra bearish news as OPEC was able to reach a supply agreement that translates into significantly more crude oil supplies on the world market over the next several months. Additionally, yields on treasury notes have continued to weaken, which the market has interpreted as a concern about economic growth. The pressures translated into a sharp selloff on Monday, led by the stock market, but dragging commodities with it. Thankfully, the outside markets had calmed by the end of the week, giving room for cotton to rebound.

## **EXPORT SALES**

This week's Export Sales Report had better news than last week. Although sales for the 2020-2021 marketing year were just 40,000 bales (there are only two weeks left to report), sales for the 2021-2022 marketing year were 251,900 bales. Shipments rebounded to 256,500 bales (including 10,400 bales of Pima) from the relatively low 189,300 bales reported for the week including July 4. That was still a bit disappointing, as the last two weeks of the marketing year need to be much bigger to hit the USDA's 16.4 million bale export target. In any case, next marketing year sales seem to be picking up steam. Assuming normal levels of carryover sales and the three million bales already on the books for next marketing year, weekly sales only need to average less than 225,000 bales per week to make the USDA's 15.2 million bale target for 2021-2022.

## **CROP PROGRESS AND WEATHER**

June and July have been cool and wet throughout the Cotton Belt. California and Arizona have been the notable exceptions. The delay this has caused is somewhat evident in the slower than normal pace of squaring (four percentage points behind average pace) and boll setting (seven points behind) on the Crop Progress and Condition Report. There is little to complain of as far as condition goes with 60% of the U.S. crop now rated as “Good” or “Excellent”. Heat and sunshine in the next few weeks’ forecast will help West Texas and Oklahoma catch up. Aside from another decent rainfall in August, this crop needs a long and warm Fall to reach full potential. Thankfully, that is just what long-range models are calling for. The August outlook is for wetter than normal weather, with the caveat that rainfall patterns are likely to be dominated by scattered thunderstorms and tropical systems. It also appears likely that a La Niña will soon develop, which would bring the needed drier, warmer fall.

## **THE WEEK AHEAD**

Watchpoints have not changed over the past week. If anything, jitters regarding the Delta variant, economic slowdown, and China-U.S. tensions have been increased by this week’s action. Tropical conditions are conducive for hurricane formation, so that is still a watchpoint, too. Otherwise, next week’s Crop Condition and Progress Report and Export Sales are the key cotton market points to watch.

## **IN THE WEEK AHEAD:**

- Friday at 2:30 p.m. Central – Commitments of Traders
- Monday at 3:00 p.m. Central – Crop Progress and Condition
- Thursday at 7:30 a.m. Central – Export Sales Report
- Thursday at 2:30 p.m. Central – Cotton-On-Call